Stock Markets: Problems

1. Suppose that a stock is expected to pay a dividend of $100 this year, $200 next year, and then nothing for the rest of time. If the interest rate is constant at 5%, what is the fundamental value if the stock?

2. What is it called if the actual stock price is higher than in #1?

3. How and why is the share price likely to change if the interest rate is instead 10%?

4. How and why is the share price likely to change if the dividend next year is instead $100?

5. How and why is the share price likely to change if the firm instead pays dividend for the next 1 million years?

6. What is a capital gain in the context of stock ownership?

7. Why do bond yields and stock prices often move in the opposite direction?

8. How do lower stock prices impact the economy using the AS/Ad model?